

Idaho Endowment Lands

Background:

When Idaho became a state in 1890, the Admission's Act granted the new state about 3 million acres of federal lands for public school support and another 650 thousand acres for support of eight other endowment beneficiaries. The State Constitution placed the management of these lands into the hands of the five-member State Board of Land Commissioners composed of the Governor, Secretary of State, Attorney General, State Controller, and Superintendent of Public Instruction. The Constitution gave the State Treasurer the responsibility for management of the financial assets generated by the endowment lands.

Over the years the board sold and exchanged properties so that about 2.1 million acres of public school endowment lands remain and about 350,000 acres of the other eight beneficiaries land remain. In addition to land sales and mineral revenue, the Land Board chose to deposit timber sale revenue into the permanent endowment. It chose to place lease revenues into the income funds for annual distribution along with the earnings from the permanent funds.

Institution	Idaho Land Grants	Remaining Acres	Percent of Total	Percent Remain
Public Schools	2,982,683	2,093,078	85.0%	70.2%
Agricultural College	90,000	33,407	1.4%	37.1%
Charitable Institutions	150,000	78,188	3.2%	52.1%
Normal School	100,000	59,494	2.4%	59.5%
Penitentiary	50,000	29,024	1.2%	58.0%
School of Science	100,000	75,397	3.1%	75.4%
Mental Hospital	50,000	31,120	1.3%	62.2%
University of Idaho	96,080	55,852	2.3%	58.1%
Capitol Building	32,000	7,222	0.3%	22.6%
Total	3,650,763	2,462,783	100.0%	67.5%

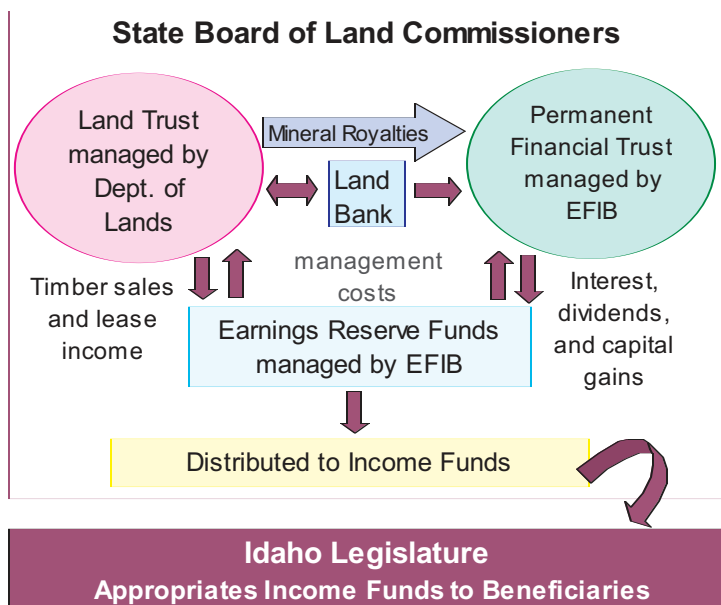
- ◆ Public school endowment lands comprise 85% of the total endowment lands.
- ◆ Nearly 70% of original or exchanged endowment lands remain.

Source: Idaho Department of Lands

Endowment Reform

During the 1960's, the legislature voiced its desire to improve the performance of the State Treasurer by creating an Endowment Fund Investment Board (EFIB) with powers to invest the financial trusts. However, the Constitution limited the types of investments to bonds and other types of "loans".

The 1998 legislature approved four pieces of legislation, the final piece effective July 1, 2000, that became the latest "Endowment Reform". Changes to the constitution allowed the EFIB to invest in the stock market, authorized a land bank, and allowed for payment of administrative costs from earnings. Statutory changes put control of the EFIB under the land board, established an earnings reserve fund as the mechanism to distribute earnings, put timber sale revenues into the earnings reserve, and gave the land board the power to determine the amount of distributions to the beneficiaries. Separate reform legislation for the Capitol Endowment did not include an earnings reserve fund.



FY 2002 Endowment Activity

The Public School Endowment is the largest of the nine endowments. The Endowment Fund Investment Board refers to seven smaller endowments as the "Pooled Endowments" and due to statutory differences, the Capitol Endowment is referred to separately.

Beginning with a market value of \$801.9 million, the Department of Lands added \$60.4 million from land activities to the Public School and Pooled Endowments. Administrative costs were \$14.7 million for the Department of Lands and \$4.0 million for the Endowment Fund Investment Board. Income from the EFIB of \$19.4 million and market losses of \$111.7 million netted to a loss of \$92.3 million. Accounting for cash distributions of \$68.2 million to the beneficiaries, the ending market value of the public school and pooled endowments was \$683.2 million or \$118.7 million less than at the beginning of the fiscal year.

Total of Permanent Fund and Earnings Reserve Fund

Institution	Market	Lands	Admin	Distrib to	EFIB	Market
	Value 6/30/01				Gains (Loss)	
		Contrib	Costs	Benef*		Value 6/30/02
Public Schools	\$545.1	\$41.5	(\$12.7)	(\$46.2)	(\$62.8)	\$464.9
Ag College	14.5	.4	(.3)	(1.3)	(1.6)	11.7
Charitable Instit.	51.4	2.1	(1.2)	(4.7)	(5.9)	41.7
Normal School	47.6	3.1	(1.1)	(4.1)	(5.4)	40.1
Penitentiary	17.4	3.2	(.4)	(1.6)	(2.0)	16.5
School of Science	55.5	4.4	(1.3)	(4.7)	(6.4)	47.6
Mental Hospital	24.7	2.1	(.6)	(2.0)	(2.8)	21.4
Univ. of Idaho	45.7	3.5	(1.0)	(3.6)	(5.3)	39.3
Total	\$801.9	\$60.4	(\$18.7)	(\$68.2)	(\$92.3)	\$683.2

*Includes the July 2001 distribution to public schools.

- ◆ Lands administrative costs were \$14.7 million and EFIB administrative costs were \$4.0 million.
- ◆ Market losses and EFIB investment costs amounted to 12% of the beginning market value.

Source: Idaho Endowment Fund Investment Board

Endowment Distributions

Although the long-term goal of Endowment Reform is to increase the returns to the beneficiaries, the short-term objective is use the earnings reserve fund as a shock absorber to provide a steadily increasing flow of revenues to the beneficiaries.

Fiscal year 2001 was the first full-year after reform. The fiscal year 2001 distribution to public schools was up \$1.9 million or 4.6% from FY 2000. The pooled endowments averaged 7.9% and ranged from a decrease of 25.1% for State Hospital South to an increase of 18.3% for the Charitable Institutions. The FY 2002 public school distribution was up another \$3 million or a 6.7% increase while distribution changes ranged from 3% to 13.6% with an average of 5.9% for the pooled endowments.

The Land Board reduced distributions to public schools by \$4.4 million and the pooled beneficiaries by \$2.0 million for FY 2003 from FY 2002 levels. This was due to a combination of FY 2001 market losses and a change in the spending rule from 8.5% to 8% of the three-year average market value of each permanent fund. FY 2004 will be a further decrease in distributions due to the FY 2002 market losses.

Detailed Endowment Distributions to the Beneficiaries

Institution	FY 2001	FY 2002	Approp. FY 2003
Public Schools**	\$44,700,000	\$47,675,000	\$43,313,000
Agricultural College (U of I)	1,127,000	1,280,000	1,139,000
Charitable Institutions			
4/15 Idaho State University	1,200,533	1,246,133	1,085,400
4/15 St. Juvenile Corr Ctr.	1,200,533	1,246,133	1,085,400
4/15 State Hospital North	1,200,533	1,246,133	1,085,400
5/30 Veterans Home	750,333	778,833	678,400
1/30 School for Deaf /Blind	150,067	155,767	135,700
Normal School			
1/2 ISU College of Ed	1,894,000	2,034,000	1,847,500
1/2 Lew is-Clark State Col.	1,894,000	2,034,000	1,847,500
Penitentiary	1,521,000	1,566,000	1,358,000
School of Science (U of I)	4,479,000	4,709,000	4,254,000
Mental Hospital (St. Hosp. S.)	1,845,000	2,024,000	1,905,000
University of Idaho	3,488,000	3,645,000	3,504,000
Total	\$65,450,000	\$69,640,000	\$63,238,300

**Distributions for Public schools are lagged so that the July cash distribution falls into the previous fiscal year. For example, for FY 2002, the July 2002 distribution is included instead of the July 2001 distribution.